

with respect to any period, any person who at any time during such period is entitled to, or at the discretion of any person may receive, a distribution from the principal or income of the trust. If a trust disposes of all of the stock which it holds in an S corporation, then, with respect to such corporation, the term "potential current beneficiary" does not include any person who first met the requirements of the preceding sentence during the 60-day period ending on the date of such disposition.

"(3) ELECTION.—An election under this subsection shall be made by the trustee. Any such election shall apply to the taxable year of the trust for which made and all subsequent taxable years of such trust unless revoked with the consent of the Secretary.

"(4) CROSS REFERENCE.—

"For special treatment of electing small business trusts, see section 641(d)."

(d) TAXATION OF ELECTING SMALL BUSINESS TRUSTS.—

Section 641 (relating to imposition of tax on trusts) is amended by adding at the end the following new subsection:

"(d) SPECIAL RULES FOR TAXATION OF ELECTING SMALL BUSINESS TRUSTS.—

"(1) IN GENERAL.—For purposes of this chapter

"(A) the portion of any electing small business trust which consists of stock in 1 or more S corporations shall be treated as a separate trust, and

"(B) the amount of the tax imposed by this chapter on such separate trust shall be determined with the modifications of paragraph (2).

"(2) MODIFICATIONS.—For purposes of paragraph (1), the modifications of this paragraph are the following:

"(A) Except as provided in section 1(e), the amount of the tax imposed by section 1(e) shall be determined by using the highest rate of tax set forth in section 1(e).

"(B) The exemption amount under section 55(d) shall be zero.

"(C) The only items of income, loss, deduction, or credit to be taken into account are the following:

"(i) The items required to be taken into account under section 1366.

"
or loss from the
disposition of
stock
in an S
corporation.

"
extent provided
in regulations
State
or local income
taxes or
administrative
expenses to
the extent
allocable to
items described
in clauses (i)
and (ii).

No
deduction or
credit shall
be allowed
for any
amount
not
described in
this
paragraph.
and no item
described
in this
paragraph
shall be
annorntioned
to any
beneficiary.

"(D) No
amount shall
be allowed
under
paragraph
(1)

or 2
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"(3)

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TRUST AND
DISTRIBU-
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For
purposes
of
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"
amount of
the tax
imposed by
this chapter
on the
portion of
any electing
small
business
trust not
treated as a
separate

trust under paragraph (1) and
"(B) the distributable net income of the entire trust,